

**MINUTES
of the
FOURTH MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**September 15-16, 2008
Santa Rosa High School
Santa Rosa**

The fourth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Senator Mary Kay Papen, chair, at 9:10 a.m. on Monday, September 15, 2008, in the auditorium of Santa Rosa High School.

Present

Sen. Mary Kay Papen, Chair
Rep. Daniel P. Silva, Vice Chair
Rep. Janice E. Arnold-Jones
Sen. Joseph J. Carraro
Sen. Clinton D. Harden, Jr.
Rep. Dona G. Irwin
Rep. Patricia A. Lundstrom
Rep. Jane E. Powdrell-Culbert
Sen. Lidio G. Rainaldi
Sen. Nancy Rodriguez
Rep. Henry Kiki Saavedra
Sen. David Ulibarri
Rep. Richard D. Vigil

Advisory Members

Rep. Jose A. Campos
Rep. Ernest H. Chavez
Rep. Anna M. Crook
Sen. Dianna J. Duran
Rep. Thomas A. Garcia
Rep. James R.J. Strickler
Rep. Luciano "Lucky" Varela

Absent

Rep. Elias Barela
Rep. Richard J. Berry
Sen. H. Diane Snyder
Rep. Don L. Tripp

Sen. Vernon D. Asbill
Sen. Pete Campos
Sen. Kent L. Cravens
Rep. Candy Spence Ezzell
Rep. Daniel R. Foley
Sen. Mary Jane M. Garcia
Rep. Roberto "Bobby" J. Gonzales
Sen. Stuart Ingle
Rep. Ben Lujan
Sen. Richard C. Martinez
Rep. W. Ken Martinez
Sen. Steven P. Neville
Sen. Leonard Lee Rawson
Rep. Edward C. Sandoval

Rep. Sheryl Williams Stapleton
Sen. James G. Taylor
Rep. Thomas C. Taylor

Staff

Doris Faust, Legislative Council Service (LCS)
Larry Matlock, LCS
Tom Pollard, LCS
David Abbey, Legislative Finance Committee (LFC)

Guests

The guest list is in the original meeting file.

Monday, September 15**Call to Order and Welcome**

Representative Campos greeted the committee in his capacity as mayor of Santa Rosa and was joined by Dan Flores, superintendent of Santa Rosa Public Schools. Committee members and staff introduced themselves.

Superintendent Flores gave a brief report on the status of Santa Rosa schools. Mayor Campos shared his pleasure in having the opportunity to show off Santa Rosa, also known as the "scuba capital of the southwest" and "the oasis on Route 66". On a more serious note, Mayor Campos indicated his hope that the state can catapult forward with renewable energy, and possibly nuclear energy as well, to create jobs and investment opportunities for the rural parts of the state, predicting that billions would be invested.

The committee acknowledged students from a U.S. government and history class, who observed a portion of the meeting as a part of the school's program to teach leadership.

New Markets Tax Credits

William Sisneros, chief executive officer of the NMFA, gave the committee his handout entitled "New Markets Tax Credit Program Overview". Marquita Russel, chief of programs, joined him for the presentation. Mr. Sisneros took a moment to introduce Phillip Webb, a new member of the staff at the NMFA who serves as the director of commercial loans.

Mr. Sisneros explained that the new market tax credit (NMTC) is a federal tax credit program that will be used to attract capital into areas of New Mexico that are not currently doing so. Finance New Mexico, a limited liability company managed by the NMFA and overseen by the State Board of Finance, will work with local banks and will establish attractive interest rates, thus improving cash flow for commercial lenders.

The NMTCs produce a 39 percent tax credit for investment in a project. Five percent is realized each year for the first three years. The rate goes up to six percent for the remaining four years, at which point the loan must be refinanced and paid back to allow the money to be available for another project. The NMTC will allow an investor to get a \$390,000 tax credit over seven years on an investment of \$1 million.

Ms. Russel said that NMTC availability is based on census data and the median income for the community. She pointed to a map of the state in the handout that has the low-income and high-stress areas of the state in dark orange. More than half of the map was orange, with large tracts in the northwest corner and the western part of the state south of I-40.

Forty percent of the tax credit investment is supposed to be in these rural areas, with 60 percent of the financing available for urban areas. There is a federal obligation to invest 75 percent of the money into the higher-distressed areas. Representative Silva noted that Mesa del Sol appears to be in a low-income area of the map.

Senator Papen asked about the next round of funding, which begins in 90 days, saying she has projects in her district that could use the money, but are not yet ready to spend it. Ms. Russel responded that money will only be available for projects that will be ready to close in 90 days, including appraisals and project development, and that have a financing mechanism in place. The NMFA has a limited time until September 2010 to use these credits and a firm deadline to implement the NMTC program.

She continued, saying that Finance New Mexico would use additional funds to supplement what the bank provides the borrower, with about 30 percent of the capital for the projects coming from the sale of the tax credit. The banks are generally in a very protected position in an NMTC transaction, with an average 70 percent loan-to-value ratio. "We come in with the money from the credits and lend the rest to the business."

Senator Harden asked about small communities that might not qualify as underserved or low income. Ms. Russel replied that the NMFA is developing a secondary program to assist smaller communities with smaller projects. Currently, only a project of \$4 million or more will benefit from the NMTC program. The projects needed by most small communities are not that big, usually ranging from \$500,000 to \$1 million. This separate program would benefit these small communities. Mr. Webb stressed the importance of making sure that lenders know which kinds of projects are compatible with the NMTC program.

The panel also described the Public Project Revolving Fund, which is the NMFA's flagship program, providing capital for roads, sewer lines, buildings, treatment centers and the RailRunner. Mr. Webb cautioned that the growing loan programs must be administered as safely as possible. He highlighted the necessity of making sure people in rural areas know of the existence of the loan program.

New Mexico Renewable Energy Transmission Authority (RETA) Update

Lisa Szot, executive director of the RETA, and Ted Apodaca, general counsel, were joined by Robert Busch, chair of the RETA board. Their handout, "RETA Implementation", is in the meeting file.

Ms. Szot gave a brief history of the RETA, which was created on July 1, 2007. The RETA can fund energy storage projects as well as transmission lines. Energy storage is necessary because of the intermittent nature of wind and solar energy. Stable power sources are necessary to augment renewable energy. At least 30 percent of the energy that travels down the lines constructed by the RETA must be from renewable sources.

One of the benefits of energy transmission projects is economic development, especially with projects with costs that range from the hundreds of millions to billions of dollars. Renewable energy needs to make its way to the customers to be of any value, which is not the way the current transmission grids are designed. In order to benefit from its vast resources of solar and wind power, New Mexico will need to create the paths to get its renewable energy to markets.

Ms. Szot has worked on transmission line projects in the eastern part of the United States and noted that it usually takes 15 to 20 years to complete a project. She reported that everyone fights transmission lines, but it has been easier to complete transmission line projects in the west.

The RETA's mission is to set up transmission to get renewable energy to the grid, but it is an expensive proposition. The only way to raise this much money is through the sale of bonds.

Representative Varela noted that the RETA needs a source of revenue to further renewables, and asked, "Why not consider energy taxes, like we have on oil, gas and coal?". Ms. Szot replied that taxing another form of energy is not in the RETA's purview, but that the authority is working with the governor's office on ideas to promote renewable energy, such as a carbon tax. The only way to raise this much money is through the sale of bonds.

Senator Ulibarri raised a discussion of building a nuclear power plant. Mr. Busch, a project manager who has actually built a plant, explained that the construction costs for nuclear energy are accelerating rapidly and that an 1,100 megawatt facility would cost over \$10 billion. "You would be lucky to get one built in seven years, even with support from the federal government." Representative Arnold-Jones mentioned a new technology for "right size reactors", but added that nuclear energy is not considered renewable by Secretary Joanna Prukop of the Energy, Minerals and Natural Resources Department (EMNRD).

Ms. Szot cautioned that the wind in the Texas panhandle is higher capacity, with more wind over a longer period of time, which would offer stiff competition to New Mexico. "We want the development here, not just because of the tax income for schools, but because the state

is the dividing line between the western and eastern interconnections. There are currently only three places with equipment to allow power to cross back and forth."

The committee discussed the proposal by T. Boone Pickens. Ms. Szot cautioned that the Pickens plan would bypass the state's wind energy and would not be compatible with any New Mexico power generation because it would run direct current as opposed to alternating current.

Although the RETA can fund storage projects, Mr. Busch noted that storage technologies have not developed very much and are not competitive compared to hydroelectric storage. Representative Silva asked, "Why create energy to be sold to California? Why not sell to Santa Rosa?". Ms. Szot explained that this would be replacing cheap energy with expensive energy. She also noted that markets like California and Phoenix, Arizona, pay significantly higher prices for electricity. Representative Silva asked, "Why pay these billions of dollars for transmission? Why should we spend New Mexico money to provide power for Arizona and California?". Mr. Busch answered that the local utilities in Arizona and California would pay for the transmission lines. "But we benefit from the investment here and having the jobs here. You pay for it over 40 years, financed with long-lived bonds, and those customers can pay the transmission charges." Representative Campos warned that future consumption of energy will more than double by 2035, which is why New Mexico needs to address these issues now.

Mr. Apodaca said that the RETA would seek endorsement of legislation at the final meeting of the NMFA Oversight Committee. He would like to amend the act to make it easier for the RETA to issue bonds. Currently, the act that created the RETA requires its funds to be held in the state treasury, which makes daily operations difficult, especially in paying invoices. He noted several impediments, including federal tax limitations, which would exclude many projects. He would like for the RETA to be able to offer tax incentives similar to what developers get with industrial revenue bonds, and he would like for the RETA to have an opportunity to become self-sufficient. Mr. Apodaca reported that to date, the RETA has no funds appropriated to it or to the Renewable Energy Transmission Bonding Fund. The RETA is unable under current law to establish a revolving fund, and it cannot acquire transmission lines on its own. All the RETA is, and all it can be, is a conduit for financing. It has no money to bring to projects, and it cannot borrow money because it has no way to pay back the loan. Without statutory authority to get one percent of the principal, the RETA will have no money coming in.

One project that the RETA is considering is for \$36 million to allow an extra 100 megawatts to flow over a path from the Willard Substation, which goes to Belen. The existing transmission line is already constrained and needs to be replaced with a higher-capacity line.

Tour of Wind Farm

Committee members, staff and audience members were invited to tour the Aragonne Mesa Wind Farm. Operations manager Darren Duran and site manager Casey Hollaway gave details about the windmills. The base of each is approximately 40 feet across, while the tower is

220 feet tall. The power produced will be the equivalent of 13 million gallons of stored water for a hydroelectric power plant. The newer turbines will generate 2.4 megawatts of power.

The farm was started in 2006 when roads were made and cable lines installed. Over 200,000 man-hours have been invested with no reportable injuries. Enough electricity for 20,367 homes will be produced. Each windmill costs between \$1.2 and \$1.4 million in 2006. The transformers contain no polychlorinated biphenyls (PCBs), using mineral oil instead. A permanent staff of 10 maintains the windmills.

The committee returned from the tour at 3:19 p.m.

Renewable Energy Opportunities in New Mexico

Secretary Prukop of the EMNRD began her presentation as soon as the tour concluded. Her handout, "Growing New Mexico's Renewable Energy Industry", is in the meeting file.

In addition to wind and solar energy, Secretary Prukop talked about deep source geothermal energy, which heats steam to power a turbine by running water in pipes deep below the earth's surface in areas with geothermal activity. Geothermal energy is not intermittent and is very stable. Secretary Prukop described the burning of biomass as an alternative energy source, noting that material from the thinning of forests and the destruction of dairy waste is burned to generate electricity.

Solar energy from solar thermal troughs and solar power towers can generate power on a commercial scale, although wind energy is much more cost-efficient. The one thing all of these different energy sources have in common is that they all require transmission lines, which is the bottleneck in renewable energy.

Secretary Prukop said that the state needs strong policies that support renewable energy while protecting the environment with the renewable portfolio standard and climate change initiatives. She recommended offering incentives to individual homeowners that install solar panels on roofs and to large industries with acres of roof space for solar panels. She predicted that, eventually, every roof in the nation would have solar panels.

She encouraged legislators to fund the Energy Innovation Fund to move some of the renewable energy projects from research and development into commercialization, with an additional carveout for the solar part of the production tax credit. There is currently a cap of \$20 million per year, and no more applications for wind will be accepted until the first project expires in 10 years. "Florida Power and Light built the wind farm you inspected today, and we are paying \$4 million per year to that enterprise in tax credits."

Mark Finochario, president and CEO of Schott Solar, appeared before the committee instead of Zane Rakes, director of operations. Mr. Finochario gave an overview of the manufacturing company, which primarily manufactures glass for solar energy applications.

Schott Solar has a facility in Massachusetts, a sales office in California and a manufacturing facility is underway in Albuquerque. New Mexico was selected because of its high level of cooperation at all levels, including the state, county and city, to assemble a package of incentives. Mr. Finochario reported that the general infrastructure here is business friendly.

There are currently only two manufacturers of solar thermal receiver tubes, and Schott Solar is one of them. Two-thirds of the Albuquerque factory will be dedicated to building the tubes. There are three production lines now, with plans for 14 or 15. If the company continues to execute those plans, by 2012 the company should have 1,500 employees. The first product is expected to be shipped to customers in April or May 2009.

Lynn Greene of Eurus Energy described some of the reasons that New Mexico will be a major competitor for renewable energy. New Mexico is the closest energy generation state to markets in Arizona and California and the closest wind resources, as well as the Four Corners energy hub, which accesses the highest price in the United States. This is why Eurus has decided to invest \$700 million in Guadalupe County. The Eurus wind farm project will be the biggest wind farm in the state, three times bigger than the one toured by the committee. The company intends to build on both sides of I-40, with an information center for tourists to try to get them off the highway and into Santa Rosa. Lynn Green noted that Steve Moise, a local landowner, was instrumental in convincing the company to move to Santa Rosa.

Jiddu Tapia, vice president of the company, and Nick Hendrickson, an economist, were also present. Mr. Hendrickson said, "We'll have 190 turbines, the largest project in the state, with 298.5 megawatts of capacity." Mr. Tapia noted that in the interconnection queue, the next wind farm will have to make a \$200 million upgrade to the state's transmission grid, which is not profitable. "We had to pay \$56 million to upgrade Public Service Company of New Mexico's system. No other wind farm will be able to afford the \$200 million." He complimented Secretary Prukop and Ms. Szot for the first-rate work being done on expanding transmission capacity.

Lynn Greene noted that the company will need to apply for industrial revenue bonds, which is not necessary elsewhere in the United States.

The committee recessed at 5:45 p.m.

Tuesday, September 16

The meeting was called to order by the chair at 8:08 a.m. Representative Campos, acting in his capacity as mayor of Santa Rosa, presented the area's infrastructure and economic development needs. Mayor Campos reported that Santa Rosa used to focus on getting people off the interstate, but is now recruiting small business to locate in the town. As an incentive to locate in the area, Mayor Campos noted that a T-1 line is available on very short notice. He mentioned the new dive facility, which helps the town compete against other states like Texas, Utah and Colorado. The declining national economy has caused a 20 percent decline in tourism,

which will directly affect the municipal government. Police officers and the public library will have their hours cut.

Santa Rosa needs a new water treatment plant. Cost of construction of a plant started at \$1.8 million and went up to \$3.6 million, and when the new Environmental Protection Agency regulations came out, it went up to \$8 million.

City administrator Tim Dodge said every engineer the town hired had a different opinion on the treatment process necessary for the water treatment plant. The panel agreed that Santa Rosa should not have to figure out which plant will work because it is an unfair burden on a small community. Mayor Campos added, "The EPA needs to tell us which design will work. That would simplify our process."

Mayor Campos cited the town's shortage of doctors, having only three, staffing the state's smallest hospital. The town is also trying to find funding for a new hospital. Christina Campos, president-elect and acting president of the MainStreet program and a hospital administrator, asked the committee to support the new hospital with capital outlay funds.

John Nuttall, manager for De Baca County, presented the county's needs, including \$300,000 for construction of a new transfer station, \$300,000 for additional equipment, including a truck and trailer to haul roll-off containers, and a dump truck to do additional roll-offs for recyclable items. Two million dollars is needed for a new jail and \$1.5 million is needed for a new courthouse and city hall annex. One hundred fifty thousand dollars could pay for hybrid vehicles for county and village staff to attend meetings, most of which are out-of-town. Mr. Nuttall's handout is in the meeting file.

Richard Primrose, Quay County manager, would like to add some space for juvenile detention facilities, as well as some road equipment. Bill Curry, Quay County commissioner, asked for help from the legislature for an overhaul of the county courthouse. Quay County's handout, a plastic-bound book, is in the meeting file. Amounts required and details of the requests are included.

Tucumcari city manager John Sutherland suggested renewing, restoring, replacing and rebuilding infrastructure from previous decades, especially water systems, wellfield rehabilitation, transmission lines and sewer systems.

Behavioral Health Capital Fund Update

Mark Valenzuela, director of governmental affairs and legislative finance strategy for the NMFA, was joined by John Brooks, senior financial advisor for the NMFA, and Karen Meador, senior policy director for the Human Services Department (HSD). Their handout, entitled "Behavior Health Capital Fund", is in the meeting file.

The Behavioral Health Capital Fund was created during the 2004 legislative session by Senate Bill 284, sponsored by Senator Papen, to fund projects that:

- finance the capital needs of behavioral health service providers; and
- are from nonprofit behavioral health service providers with assets of \$10 million or less.

Senate Bill 52 from the 2005 legislative session authorizes the NMFA to capitalize the fund with \$2.5 million from the cigarette tax revenue bonds.

The NMFA will provide financial analysis of the qualifying clinic, determine the appropriate loan structure, protect the long-term health and longevity of the program, make recommendation of the application to the committee and administer the fund, while the HSD will evaluate the application for eligibility, determine the programmatic priority of the project and collaborate with the NMFA to ensure appropriate use of the loan fund.

So far, four applications have been received. They are from Las Cruces, the tri-county Taos area, Santa Fe and Albuquerque. They will encumber \$2.5 million of the fund. The board of the NMFA has approved one project thus far.

GRIP Update/NMFA Procurement Process

Mr. Valenzuela remained at the presenters' table for the next presentation. His handout, "Summary of Financing Assumptions for the GRIP Program", is in the meeting file. Mr. Sisneros joined him for his presentation.

Mr. Valenzuela explained that the final round of \$485 million in bonds would be issued in 2010. "We intend to finish by 2030."

Representative Lundstrom asked about a \$200 million line of credit. Mr. Valenzuela testified that the Department of Transportation (DOT) has to show it has cash in the bank before the federal government will allow it to let a contract. A line of credit would be a good solution, because the DOT would not have to pull the money down, although more time will be needed to examine the new reimbursement procedures.

Jerry Trojan of the NMFA discussed the NMFA's procurement process. Mr. Sisneros described a transaction in 2003 with CDR, a California company that provided technical advice on swap transactions. The U.S. Justice Department is investigating CDR and has requested cooperation from the NMFA.

There being no further business before the committee, it adjourned at 12:22 p.m.